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DAVID L. MODISSETTE, EXECUTIVE DIRECTOR

September 2, 2011

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Joe Grindstaff
Executive Officer
Delta Stewardship Council
980 Ninth Street, Suite 1500
Sacramento, CA 95818

Dear Mr. Grindstaff:

On behalf of the California Municipal Utilities Association (CMUA), we thank you for the opportunity to comment on the fifth staff draft version of the Delta Plan. CMUA represents the interests of water agencies throughout the state and all the publically owned utilities (POUs) in California that deliver both electricity and water.

We are writing to express our concern about Finance Plan Framework (FP R12), which recommends that the California Legislature establish a "public goods charge" (PGC) on urban and agricultural water users. This recommendation, in the fourth and fifth staff versions, while lacking critical details, would appear to require urban and agricultural water agencies to raise rates to fund statewide water and habitat restoration needs and fund Department of Water Resources' California Water Plan updates and/or state "science programs."

Many individual CMUA members actively participate in the Delta Stewardship Council process and are commenting on a variety of issues raised by the staff proposal. Because CMUA members have direct experience with the existing electric PGC, we think it important to share our views on this recommendation as an organization.

Water PGC May Interfere With Water Financing at the Local Level

We understand that little public money is available to pay for statewide resources needs. However, public money is also scarce at the local level, where ratepayer funds are also needed to upgrade aging infrastructure, comply with new state and federal water laws including reducing water use by 20 percent by 2020, and much more. Successfully passing local water rate increases to backfill lost revenues – particularly in the existing fiscal crisis all Californians are experiencing – is not a foregone conclusion, especially if the increase is not viewed as helpful to the community. Under Proposition 218, before a local government can charge a new property related fee, or increase an existing one, local officials are required to identify the parcels to be charged, calculate the fee for each parcel, give written notice about the fees, hold a public hearing to

consider and count protests and finally abandon the fees if a majority of the parcel owners file written protests. Under the *Bighorn-Desert View Water Agency v. Verjil* 2006 decision, water rate increases also became subject to the detailed notice, majority protect and substantive requirements of Proposition 218. Newly passed Proposition 26, which expands the definition of a "tax", may further complicate what local agencies must do to recoup local funds that are sent to the State. We are concerned that if water agencies cannot get approval from their customer base for these increases, then the only way agencies could pay the obligation is to cut existing projects and programs in order to free-up the financial resources to pay this new fee or tax.

Electric PGC Funds Stay Local to Benefit Communities

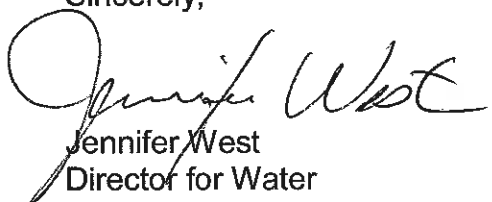
From the minimal detail included in the staff's recommendation, the water PGC proposed in the fifth draft appears to be very different from the existing PGC that POU customers pay on their electricity bills. For POUs, the electric PGC is used locally, within their service areas, for projects that directly benefit and are supported by their communities. Local agencies are given broad discretion to use the funds locally for energy efficiency, development of renewable resources, investing in local research, development and demonstration projects, and assisting low income ratepayers. In contrast, the proposed water PGC would go to state agencies to fund statewide resources needs where ratepayers would have little or no input into the project and/or programs, rather than being returned to benefit the local communities.

Role for Statewide Bond Measure

Major restoration projects of statewide importance have traditionally been funded by general obligation bonds. While we are in very tough economic times, CMUA believes that this traditional approach continues to be the right mechanism. Accordingly, the use of statewide general obligation (GO) bonds should be used to fund urgent environmental restoration and enhancement projects, such as ecosystem restoration projects in the Delta, which are not the mitigation obligation of any entity and where no direct beneficiary has been identified. We ask that you alter the Finance Plan Framework to recommend to the Legislature that GO bonds should continue to be used for appropriate Delta ecosystem restoration, deleting the current recommendation that urban and agricultural water agencies should pay "ecosystem costs that were once paid with general obligation bonds."

Once again, we thank you for the opportunity to comment on the fifth staff draft version of the Delta Plan. Based on member input, CMUA reserves the right to comment on other recommendations in this version of the Delta Plan before the comment period closes. Please do not hesitate to contact me at (916) 326-5800 if you have questions or need clarification regarding CMUA's concerns on this aspect of the Delta Plan.

Sincerely,



Jennifer West
Director for Water